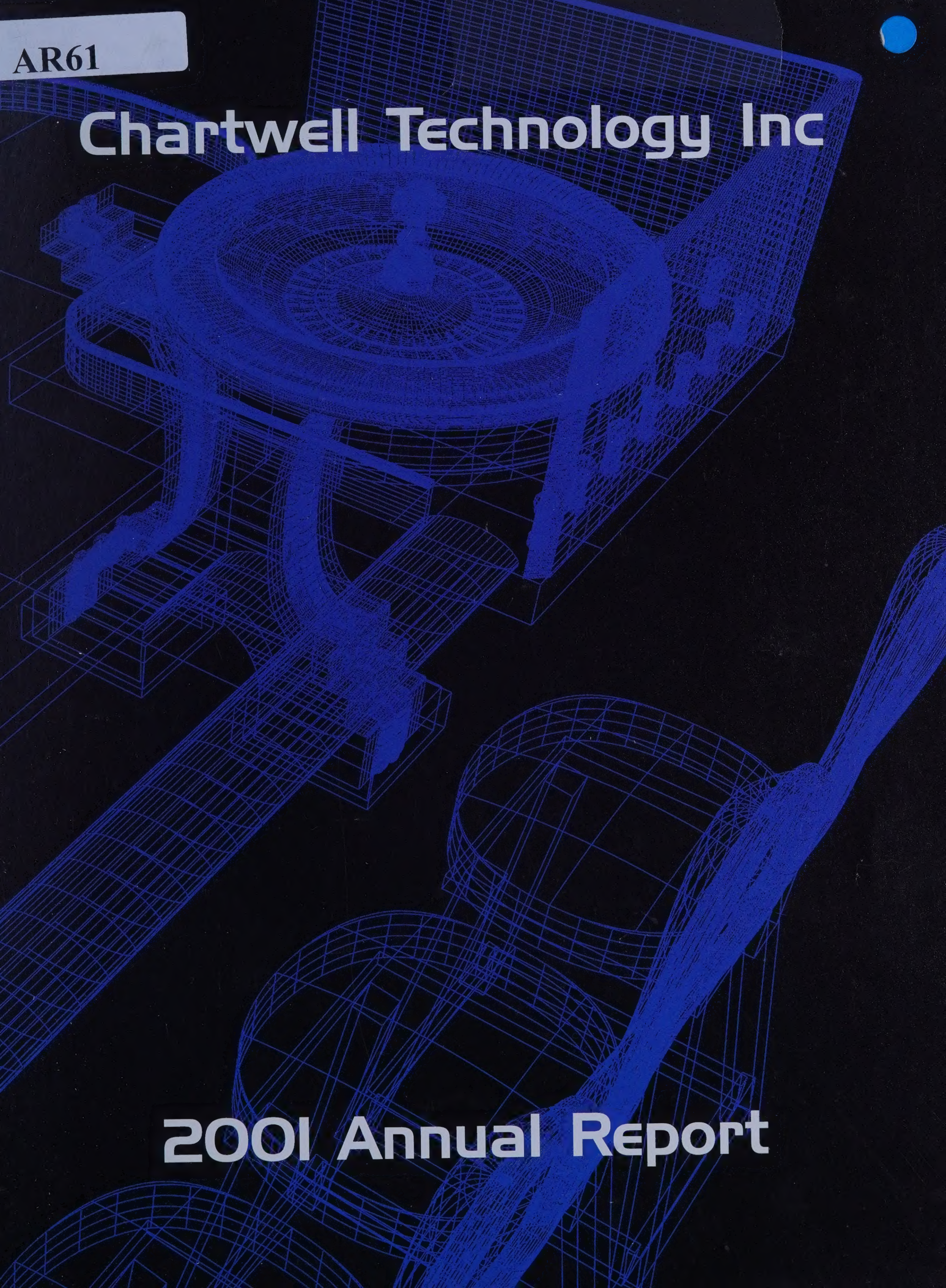
Chartwell Technology Inc



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Chartwell Technology Inc

2001 Annual Report

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Corporate Overview

Chartwell is one of the world's leading suppliers of Internet games, gaming systems and entertainment content to a rapidly growing international market.

Chartwell employs state-of-the-art technologies to produce the most flexible, robust, scalable and secure custom gaming systems available in both Java and Flash in-browser solutions and downloadable applications.

Chartwell's unique product and business model provide gaming site operators with the control and flexibility they demand from their technology partners.

Chartwell has the financial strength, professional resources and market-driven strategy to capitalize on the unique opportunities existing in this global market.

President's Message

Revenue growth was a major focus as we entered our third year of operation. As a result of new licensing agreements and existing client growth, Chartwell generated revenues of $3,232,354 for the fiscal year ending Oct 31, 2001, representing an increase of 127% over the previous year. Although not yet profitable, our net loss from operations decreased by approximately 68% compared to the previous year. By continuing to expand our sales efforts and add new clients, we achieved our first profitable quarter of operations during fiscal 2001.

This year saw the setup of an office in Singapore, which will be acting as both a sales office for the growing Asia-Pacific region, and as the location of Chartwell's wholly owned subsidiary, Chartwell Games Corp. The new sales office was successful in signing its first licensee in this new Asia-Pacific market.

Chartwell continued to expand its presence in the 'play for fun' market by completing development agreements with some of the largest gaming companies in North America, and closed the year with several other potential 'play for fun' licenses under negotiation.

We have recognized a growing 'play for real' opportunity with European-based online sports betting companies seeking to expand gaming options for their player base. Based on our initial successes in this sector, we have since added several prominent online sports betting clients, and continue to target this area for further growth.

Over the past year we continued to add major new functionality in our product offering by releasing the Flash version of our casino suite and a new bingo product. Similar to our flagship Java-based casino, the Flash product is a no-download, in-browser gaming product, but gives the player control over the size of their playing window and provides a unique look and feel. Chartwell is continuing to expand the range of games offered using the Flash front-end, and is also developing a 'download' version of the casino suite, which will benefit players with low bandwidth Internet connections.

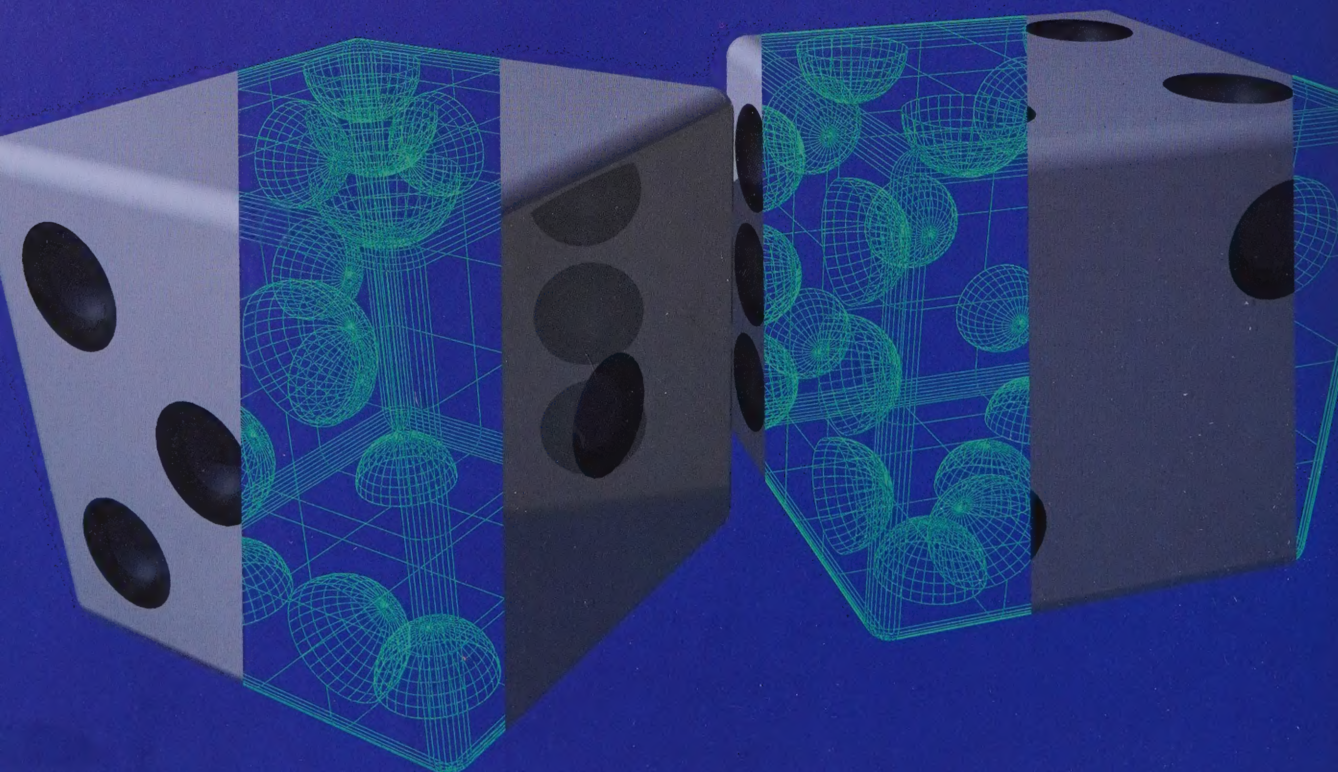
With an increasing number of mobile devices such as hand held phones and PDAs accessing the Internet, we see a tremendous new market opportunity. Mobile devices will provide users a new and convenient method of accessing business, entertainment and gaming applications and Chartwell's technology base is well suited to adopt this new technology. To this end, Chartwell entered into an agreement with Motorola, the largest mobile phone manufacturer in the US, to develop a suite of games for their new line of Java-enabled phones. Chartwell is continuing to research and utilize new and emerging technologies relevant to the online gaming industry, and will continue to build on its substantial range of products and player gaming platforms.

We confidently look forward to this new year in which we hope to achieve our first year of profitability, which will set the stage for much enhanced shareholder value going forward.

Respectfully,

Darold H. Parken, President

Q and A with the President



Is the online gaming industry expected to grow?

Many studies of the online gaming industry (such as those by Merrill Lynch and Informa Media, to name two prominent sources) indicate substantial growth of between 40% and 60% for the online gaming industry over the next several years.

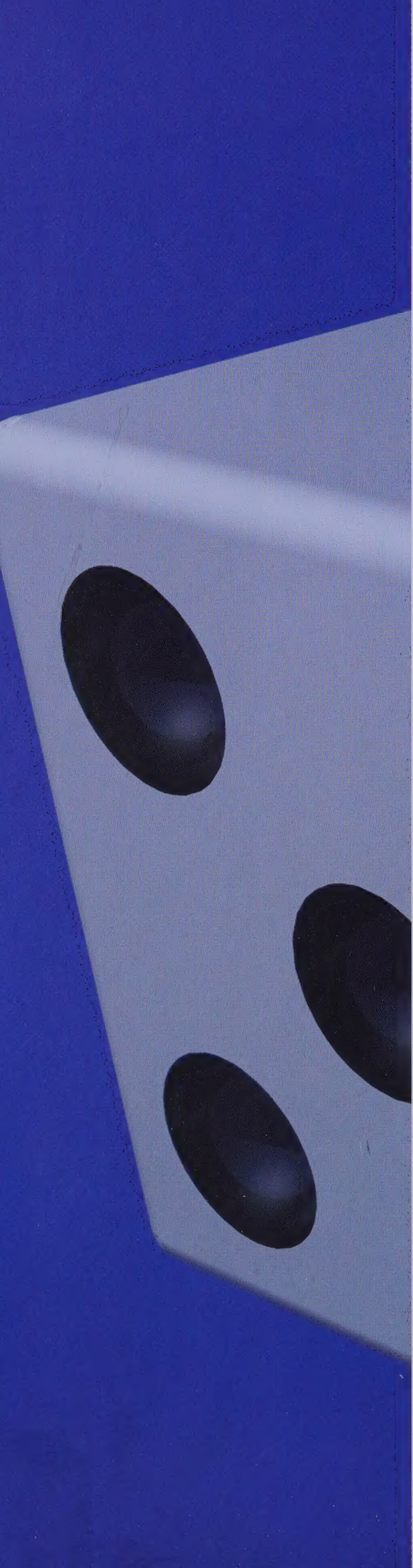
Part of the expected industry growth comes from an overall increase in the number of people accessing the Internet. According to Merrill Lynch, the number of adult online users will more than double to 750 million by 2005. Within this general expansion trend is a growth of online access over a greater diversity of countries, each with their unique combination of opportunities and challenges for a gaming system supplier such as Chartwell. These include dealing with multiple currencies, multiple languages and slower Internet connections, all of which Chartwell has addressed in its latest product releases.

How are regulations affecting the industry?

There is an increasing willingness of players to gamble online and this is in no small part due to the trust element brought about by new regulated jurisdictions such as Isle of Man, Alderney, and several of the Australian provinces. The British government recently indicated their intention to become a leader in this area through the licensing and regulation of online gaming. These jurisdictions provide a regulatory framework which gaming system operators must comply with, ranging from background checks, site security, responsible gaming features and strict regulations governing the operation of the gaming system. A regulated environment promotes responsibility and integrity on part the gaming site operator while providing legislated protection to the player.

In June of 2001 the Nevada Senate approved Bill AB466 to become the first State in the US to move toward the regulation of online gaming. Chartwell is the only online gaming system vendor to have developed and licensed 'play for fun' gaming systems in that market and we continue to expand our market share in this area based on our belief that a move toward complete regulation is inevitable.

Has the composition of online operators changed?
Also contributing to the player's increasing



sense of trust is the emergence of well-known gaming organizations into the world of Internet gaming. Well-established sports betting companies are examples of land-based operators who have extended their brands online. There is a growing awareness of the potential of Internet gaming among all sorts of global gaming and non-gaming entertainment brands, and these companies look to reputable technology partners like Chartwell to provide the means to create a fully customized gaming site that can be integrated into their existing hardware and software infrastructures.

The recognizable brand-names now entering the online gaming market tend to gravitate towards the more highly regulated jurisdictions. Chartwell is responding to this trend by pursuing certification of our gaming system in several key jurisdictions with highly regulated online gaming environments. Chartwell has already obtained certification by a third-party testing organization of the key component of any gaming system, the random number generator.

What other factors are influencing the gaming industry?

Technological advancements have also increased the range of devices with which players may access the Internet and thereby access the various online gaming sites. Until recently online gaming meant using a PC to access a gaming site over the Internet. The proliferation of Interactive TV and wireless devices that are connected to the Internet creates many new opportunities for Chartwell to leverage the power of our existing proven gaming systems with these new technologies.

Europe is expected to lead in the growth of Interactive TV gaming opportunities. There is also tremendous growth expected in Europe and Asia as mobile devices are increasingly used to access the Internet and deliver entertainment and gaming applications to consumers.

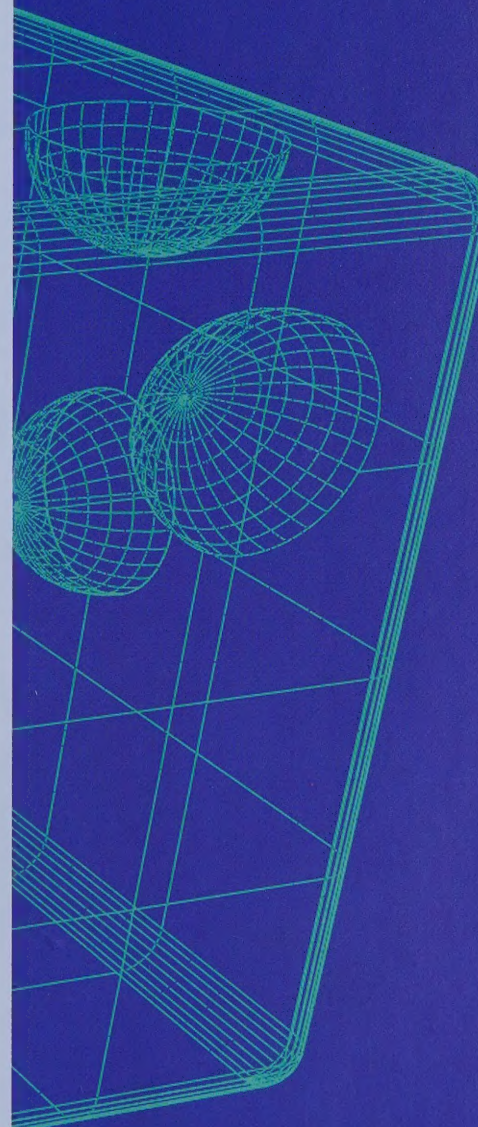
How will Chartwell be taking advantage of these trends?

Chartwell has long recognized the potential of the emerging technologies, and during 2001 entered into an agreement with mobile phone manufacturer Motorola to create a suite of games for their new Java-enabled handsets. This is a good example of the power of Chartwell's Java-based gaming technology, which is well positioned to exploit other potential platforms such as PDA's and Interactive TV. As a benefit to players with lower bandwidth, Chartwell has also developed an application version of its casino games. This new version, also known as a 'download' style of games, will complement Chartwell's industry-leading 'in browser' technology.

In order to meet the needs of a wider segment of the gaming market, Chartwell has continued to expand the range of its gaming products. Multi-player bingo was released during 2001 and multi-player poker and lottery are under development as well. Many other casino style games are also in development with release expected over the course of fiscal 2002.

What other strategies will be used in targeting the global market?

Our new Singapore office has won our first significant new licensee in the Asia-Pacific region and will continue to expand our licensee base in this fast growing market. Chartwell has expanded the global reach of its games by building multi-language and multi-currency support into its latest gaming system. Chartwell's licensees can now provide their players with a choice of English, French, Italian, Spanish, German and Russian, with Japanese, Chinese, Turkish and Greek versions in development. Chartwell has also given operators the ability to offer gaming in whatever currencies they wish to support. Chartwell's gaming suite currently includes several Asian games, and we will be expanding our offering of regional games over the next year. These new features will allow Chartwell's licensees to reach a larger proportion of this increasingly global market.



How is Chartwell's business model suited to industry trends?

As the online gaming industry matures, larger, more sophisticated organizations are entering the market. This new type of potential client typically has a well established IT infrastructure and personnel, and often has an existing player base and payment processing facilities in place. They are experienced operators who want complete control over their operating environment, including their database and all manners of dealing with their players.

Unlike many of our competitors Chartwell does not require its clients to operate their online businesses in a Chartwell-controlled facility. Chartwell's clients therefore maintain complete control and ownership of their most precious asset, their player database. Chartwell is also able to integrate its gaming system with the existing hardware and software configurations of its clients. Clients also exercise complete operating control of their sites through CyberBoss, Chartwell's comprehensive administration, marketing and management utility.

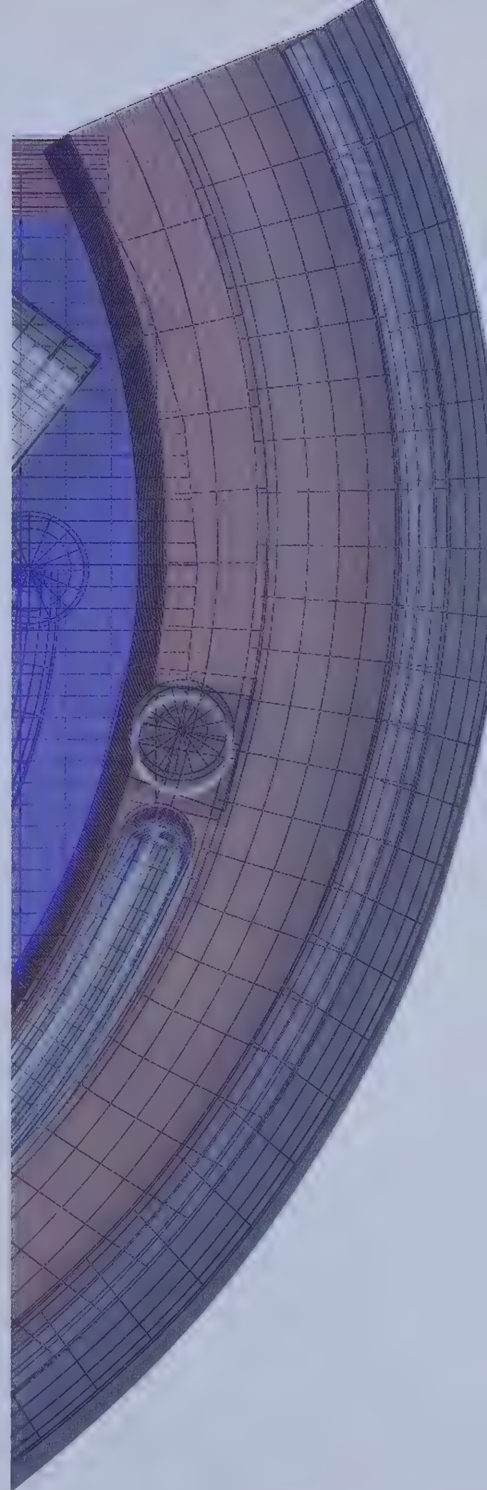
Chartwell believes its continued success in the online gaming business will be achieved by offering the widest choice of gaming products, over multiple player platforms, while providing complete operator ownership and control.

Chartwell's leading product offering and its strengths in emerging new technical areas, combined with a business model that meets the demands of the new, more sophisticated online gaming operator, positions Chartwell to take an ever larger market share over the near term and beyond.

Management's Discussion and Analysis of Financial Condition

Operating results

The following discussion and analysis explains trends in our financial condition and results of operations for the three fiscal years ended October 31, 2001, 2000 and 1999. This discussion and analysis of the results of operations and financial condition of the Company should be read in conjunction with the audited financial statements and the related notes, as well as statements made elsewhere in this Annual Report. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada, which conform to accounting principles in the United States, except as described in the notes to financial statements. Unless expressly stated otherwise, all references to dollar amounts in this section are in Canadian dollars (in accordance with Canadian GAAP).



Results of Operations

Year Ended October 31, 2001 Compared to October 31, 2000

The financial results for the year ended October 31, 2001 and 2000 include the operations of our wholly owned subsidiaries Chartwell Games Corp. (CGC) and Gateway Technology, Inc. (GTI).

Total Assets

Total assets decreased during the year from $9,710,042 (2000) to $7,937,406 (2001) primarily as a result of a decrease in cash related to operating activities.

Revenues

Revenues increased to $3,232,354 for the year ended October 31, 2001, compared with $1,421,289 for the year ended October 31, 2000, an increase of 127%. Operating revenues consisted of Software set-up fees and Software licensing fees. Software set-up fees for the year ended October 31, 2001 were $1,928,696, compared to $909,902 in 2000, an increase of 112%, primarily from the development and installation of software for 9 new clients. Software licensing fees for the year ended October 31, 2001 were $908,876, compared to $172,463 in 2000, an increase of 427%, primarily from increased licensing revenues from our installed software base. We anticipate that operating revenues will increase during our fiscal year ending October 31, 2002, as we enter into new software licensing agreements and as we continue to earn revenues from our installed customer base. Interest and other revenues for the fiscal year ended October 31, 2001 were $394,782, compared to $338,924 in 2000.

Expenses

Expenses increased slightly from $4,046,595 during the fiscal year ended October 31, 2000, to $4,068,321 in 2001. Expenses consisted of software development expenses in the amount of $2,013,601 during the fiscal year ended October 31, 2001, compared to $1,291,899 in the prior year, an increase of 56%, as we increased our software development efforts in 2001. General and administrative expenses declined $450,978 (18%) from $2,516,688 during the fiscal year ended October 31, 2000, to $2,065,710 in 2001, primarily as a result of our efforts to reduce overhead costs. We had a one-time gain of $242,512 from the extinguishment of debt during the fiscal year ended October 31, 2001.

Loss

Net loss from continuing operations decreased $1,789,609 (68%) from $2,625,306 during the year ended October 31, 2000 to $835,697 for the fiscal year ended October 31, 2001. We had a loss per share of $0.05 for the year ended October 31, 2001, compared to $0.20 for the year ended October 31, 2000. The significant decrease in loss per share resulted from our

increased operating revenues during 2001 and decreased general and administrative expenses, offset by our increased spending in software development. We anticipate that such losses may continue into future periods as we develop our business and invest in research and development to improve our products and expand our marketing efforts.

Year Ended October 31, 2000 Compared to October 31, 1999

The financial results for the year ended October 31, 2000 include the operations of our wholly owned subsidiaries CGC and GTI.

Total Assets

Total assets increased during the year from $1,587,541 (1999) to $9,710,042 (2000) due mostly to an increase in cash from financing activities.

Revenues

Revenues increased to $1,421,289 for the year ended October 31, 2000, compared with $262,342 for the year ended October 31, 1999, an increase of $1,158,947 (442%), due to licensing and installations of our software products in 2000. Operating revenues consisted of Software set-up fees and Software licensing fees. Software set-up fees for the year ended October 31, 2000 were $909,902, compared to $235,528 in 1999, an increase of $674,374 (286%), as we began commercialization and installation of our software. Software licensing fees for the year ended October 31, 2000 were $172,463, compared to no revenue during 1999, as we began receiving licensing revenues from our installed software base. Interest and other revenues for the fiscal year ended October 31, 2000 were $338,924, compared to $26,814 in 1999, due primarily from interest earned on cash raised in financing during 2000.

Expenses

Expenses were $4,046,595 during the fiscal year ended October 31, 2000, compared to $2,261,234 in 1999, an increase of $1,785,361 (79%). Expenses consisted of software development expenses in the amount of $1,291,899 during the fiscal year ended October 31, 2000, compared to $1,208,096 in 1999, an increase of $83,793 (7%), as we continued our software development efforts in 2000. General and administrative expenses increased $1,894,212 (304%) from $622,476 during the fiscal year ended October 31, 1999, to $2,516,688 in 2000, primarily as a result of increased expenses related to development of our software licensing business.

Loss

Net loss from continuing operations increased $626,414 (31%) from $1,998,892 during the year ended October 31, 1999 to $2,625,306 for the fiscal year ended October 31, 2000, primarily from the increase in general and administrative expenses and our shift in business strategy from the oil and gas business to the software development business. We had a loss per share from continuing operations of $0.20 the year ended October 31, 2000, compared to $0.18 for the year ended October 31, 1999.

During the year ended October 31, 1999, we sold our interests in our oil and gas properties and recognized a loss from our discontinued oil and gas operations of $124,192, which increased our net loss for 1999 to $2,123,084 or $0.19 per share. As a result, we will not receive any revenues in future periods resulting from oil and gas operations. We do not believe our results of operations from our oil and gas properties were material to our current business.

Currency Translation - Inflation

Our operations are carried out in United States and Canadian dollars. We expect to carry out the majority of our financings, product development and administration through our Canadian operations in Canadian dollars, our functional currency. Under our licensing agreements, revenues will be received in U.S. dollars. As a result, the Company will be faced with currency fluctuations. We do not currently engage in currency hedging, however, the Company may do so if management determines it is prudent.

We do not anticipate that inflation will have a material adverse affect on our future operations. Our material obligations are fixed based on capital leases and real property leases. In the event our operations are impacted by inflation, we anticipate it will decrease our profit margins.

Critical Accounting Policies

The most significant judgement involved in the preparation of the financial statements is the application of the method of accounting for contract revenue. As explained in note 2(f) to the financial statements, software set-up fees, which require software customization, modification and integration are recognized following the completed contract method which is consistent with the guidance contained in AICPA Statements of Position 97-2 and 81-1.

The Company makes estimates of costs to complete each contract at each financial reporting date and those estimates comprise a significant amount of judgement as to the resources and related costs which are required in the future to reach contract completion. To the extent that estimated costs exceed expected revenues on contracts, the estimated loss is recognized in the financial statements when identified.

Liquidity and Capital Resources

Our primary source of funds since incorporation has been through the issue of our Common Shares. Revenues from our software operations have increased each year since we changed our business strategy from oil and gas to software development: $3,232,354 in 2001, $1,421,289 in 2000, and $262,342 in 1999. Losses decreased from $2,625,306 in 2000 to $835,967 in 2001.

During the year ended October 31, 2001, we issued 78,000 common shares upon exercise of options and warrants for proceeds of $92,500. During the year ended October 31, 2000, we raised $10,075,000 through a private placement of Special Warrants completed on March 10, 2000. In addition, all of the 1999 Special Warrants and 1999 Warrants we issued were exercised resulting in the issuance of 1,100,000 Common Shares in aggregate and resulting in a further cash infusion of $1,375,000.

Capital expenditures were $314,715 for the year ended October 31, 2000 and $97,093 for the year ended October 31, 2001. These expenditures were made to acquire computer and related equipment.

Our cash and short-term investment position at October 31, 2001 was $6,091,085. We had working capital of $7,298,423 at October 31, 2001.

We expect that our software development costs will be approximately $2,500,000 in our fiscal year ending October 31, 2002. We anticipate our capital requirements will increase to approximately $3,000,000 in our fiscal year ending October 31, 2003, principally as a result of additional staff requirements. Administrative expenses are expected to be approximately $1,000,000 during our fiscal year ending October 31, 2002.

We believe that our current cash resources are sufficient to enable us to continue as a going concern.

We believe that our cash flow from operations, supplemented by existing working capital, provide sufficient resources to finance our operations and planned capital needs for the next 12 months at least.

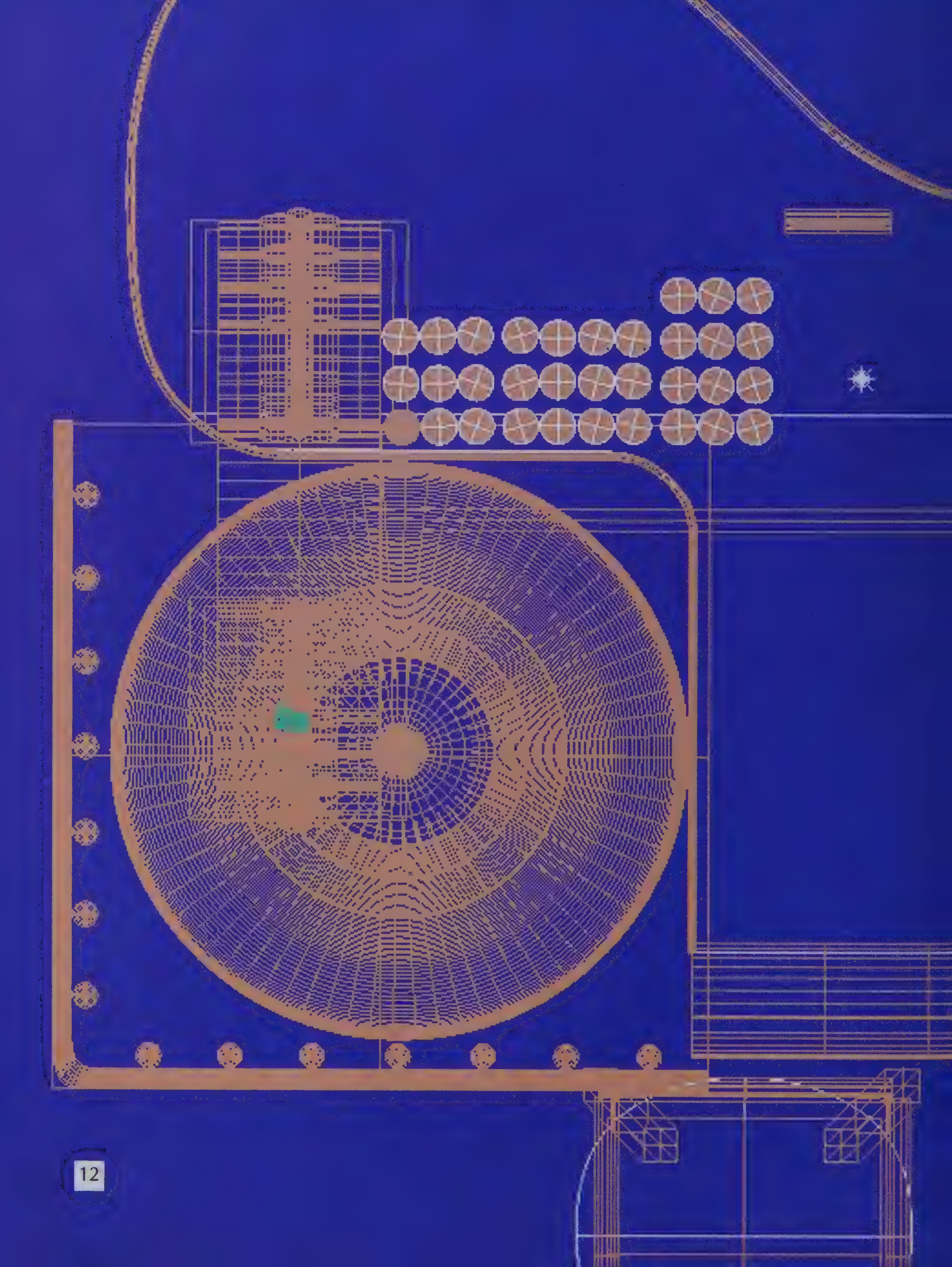
We do not know of any trends, demands, commitments, events or uncertainty that will result in, or that are reasonably likely to result in, our liquidity either materially increasing or decreasing at present or in the foreseeable future. Material increases or decreases in our liquidity are determined by the success or failure of our software operations.

Research and development, patents and licenses, etc.

The Company's policy is to continuously perform research and development to develop new products or versions of products. We also research new technologies that relate to our products and use them to improve our products where appropriate. The Company does not patent its products or technologies but utilizes a licensing model with its customers, which provides protection from unauthorized use. Our source code is not made available to licensees and we utilize various security measures to prevent any unauthorized copying or viewing of our source code. Research and development expenditures are described as "Software Development" in our financial statements and are fully expensed in the periods they are incurred. For fiscal 2001 these expenditures amounted to $2,013,601, for fiscal 2000 these expenditures amounted to $1,291,899 and for fiscal 1999 expenditures were $1,208,096.

Trend information

Since the end of the last fiscal year the company released a new version of casino software. Our revenue is beginning to be generated more from ongoing license fees relative to initial development and set-up fees. The Company has added several new clients since the end of the last fiscal year and existing clients are being upgraded to the new version of our software.



Consolidated Financial Statements of

CHARTWELL TECHNOLOGY INC.

As at October 31, 2001 and 2000 and for each of the years in the three year period ended October 31, 2001

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The management of the Company has prepared the information and representations in this Annual Report. The Consolidated Financial Statements have been prepared in conformity with generally accepted accounting practices in Canada, and, where appropriate, reflect management's best estimates and judgments. A system of internal accounting controls is maintained to provide reasonable assurance that financial information is accurate and reliable. The Company's independent auditors, who are appointed by the shareholders, conduct an audit in accordance with generally accepted auditing standards for the purpose of expressing their opinion on the Consolidated Financial Statements. This Annual Report has been approved by the Board of Directors.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Chartwell Technology Inc. as at October 31, 2001 and 2000 and the consolidated statements of loss and deficit and cash flows for each of the years in the three year period ended October 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

With respect to the consolidated financial statements for the years ended October 31, 2001 and October 31, 2000 we conducted our audit in accordance with Canadian generally accepted auditing standards and United States generally accepted auditing standards. With respect to the consolidated financial statements for the year ended October 31, 1999, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company and the results of its operations and its cash flows for each of the years in the three year period ended October 31, 2001 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
December 14, 2001

COMMENTS FOR U.S. READERS

In the United States, reporting standards for auditors require the addition of an explanatory paragraph following the opinion paragraph when there are substantial uncertainties about the Company's ability to continue as a going concern, as referred to in note 1 to these consolidated financial statements. Our report to the shareholders dated December 14, 2001 is expressed in accordance with Canadian reporting standards which do not permit a reference to such matters in the auditors' report when the facts are adequately disclosed in the financial statements.

KPMG LLP

Chartered Accountants

Calgary, Canada
December 14, 2001

CHARTWELL TECHNOLOGY INC.
Consolidated Balance Sheets

As at October 31 (stated in Canadian dollars)

	2001	2000
Assets		
Current assets:		
Cash and cash equivalents	$ 2,741,078	$ 8,793,474
Short term investments (note 12)	3,350,007	-
Accounts receivable	1,200,036	143,753
Prepaid expenses	79,867	71,968
	7,370,988	9,009,195
Available for sale long-term securities	42,882	42,882
Capital assets (note 5)	303,392	327,745
Deferred software development costs (note 6)	220,144	330,220
	$ 7,937,406	$ 9,710,042
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 59,897	$785,542
Current portion of obligations under capital lease (note 7)	12,668	12,486
Deferred revenue	-	299,789
	72,565	1,097,817
Obligations under capital lease (note 7)	13,446	17,363
Shareholders' equity:		
Share capital (note 8)	14,511,135	14,418,635
Deficit	(6,659,740)	(5,823,773)
	7,851,395	8,594,862
Continuing operations (note 1)		
Commitments (note 13)		
	$ 7,937,406	$ 9,710,042

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Signed "Darold H. Parken" Director

Signed "Roderick A. Ferguson" Director

CHARTWELL TECHNOLOGY INC.

Consolidated Statements of Loss and Deficit

Years ended October 31 (stated in Canadian dollars)

	2001	2000	1999
Revenue:			
Software set-up fees	$ 1,928,696	$ 909,902	$ 235,528
Software license fees	908,876	172,463	-
Interest and other	394,782	338,924	26,814
	3,232,354	1,421,289	262,342
Expenses:			
Software development	2,013,601	1,291,899	1,208,096
General and administrative	2,065,710	2,516,688	622,476
Gain from extinguishment of debt (note 3)	(242,512)	-	-
Write-off of acquired inventory and equipment	-	-	158,745
Amortization of deferred software development costs	110,076	110,074	108,824
Interest	-	6,884	64,425
Equipment sales and consulting	-	-	46,993
Depreciation and amortization	121,446	121,050	51,675
	4,068,321	4,046,595	2,261,234
Loss from continuing operations	(835,967)	(2,625,306)	(1,998,892)
Loss from discontinued oil and gas operations (note 4)	-	-	(124,192)
Net loss	(835,967)	(2,625,306)	(2,123,084)
Deficit, beginning of year	(5,823,773)	(3,198,467)	(1,075,383)
Deficit, end of year	$ (6,659,740)	$ (5,823,773)	$(3,198,467)
Net loss per share:			
from continuing operations	$ (0.05)	$ (0.20)	$ (0.18)
for the year	$ (0.05)	$ (0.20)	$ (0.19)

See accompanying notes to consolidated financial statements.

CHARTWELL TECHNOLOGY INC.

Consolidated Statements of Cash Flow

Years ended October 31 (stated in Canadian dollars)

	2001	2000	1999
Cash provided by (used in):			
Operations:			
Net loss from continuing operations	$ (835,967)	$ (2,625,306)	$(1,998,892)
Write-off of acquired inventory and equipment	-	-	158,745
Depreciation and amortization	121,446	121,050	56,167
Amortization of deferred software development costs	110,076	110,074	108,824
Deferred revenue	(299,789)	(123,014)	422,803
Change in non-cash working capital:			
Accounts receivable	(1,056,283)	150,150	(227,746)
Prepaid expenses	(7,899)	(5,495)	(52,501)
Accounts payable and accrued liabilities	(725,645)	437,737	(20,853)
	(1,789,827)	582,392	(301,100)
	(2,694,061)	(1,934,804)	(1,553,453)
Financing:			
Issue of debenture for cash	-	-	500,000
Issue of shares	92,500	1,447,500	18,750
Issue of special warrants	-	10,075,000	932,800
Share and special warrant issue costs	-	(816,416)	-
Repayment of lease obligations	(3,735)	(230,375)	(73,711)
Long-term debt	-	(42,625)	(5,223)
	88,765	10,433,084	1,372,616
Investments:			
Cash acquired on acquisition of Gateway Technology Inc. (note 3)	-	-	68,285
Purchase of short term investments	(3,350,007)	-	-
Software development costs	-	-	(157,490)
Purchase of capital assets	(97,093)	(314,715)	(75,410)
	(3,447,100)	(314,715)	(164,615)
Discontinued operations:			
Operating loss	-	-	(10,795)
Proceeds on sale of petroleum and natural gas properties	-	-	127,750
	-	-	116,955
Increase (decrease) in cash	(6,052,396)	8,183,565	(228,497)
Cash and cash equivalents, beginning of year	8,793,474	609,909	838,406
Cash and cash equivalents, end of year	$ 2,741,078	$ 8,793,474	$ 609,909

See accompanying notes to consolidated financial statements

Chartwell Technology Inc. (the "Company") is incorporated under the Business Corporations Act (Alberta). The Company specializes in the development of leading edge games and entertainment content for Internet and Intranet deployment. The Company's software products and games are designed for use in gaming, entertainment, advertising and promotional applications.

1. Continuing operations:

The Company has no history of generating cash flow from operations. Although the Company earns license and royalty revenue from its software, that revenue is not yet at a level at which profitability can be sustained. The Company currently has sufficient cash to fund its business plan for the next fiscal year.

2. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Gateway Technology Inc. ("GTI"), a United States company, and Chartwell Games Corp. ("CGC") (formerly Gaming Tech Corporation), a Belize company. GTI is a US incorporated company which was acquired on November 1, 1998 and Gaming Tech was incorporated in Belize and com menced operations November 1, 1999. The accounting policies of the Company are in accordance with generally accepted accounting principles in Canada and Canadian dollars is the functional currency. Except for the information disclosed in note 16 there are no material differences between Canadian and United States generally accepted accounting principles in these consolidated financial statements.

(b) Cash and cash equivalents:

All highly liquid investments with original maturities of three months or less are classified as cash and cash equivalents. The fair value of cash and cash equivalents approximates the amount shown in the financial statements.

2. **Significant accounting policies (continued):**

(c) Capital assets:

Capital assets are recorded at cost and amortization is provided for on a declining balance basis using the following rates:

Capital assets under lease	30%
Computer equipment	30%
Furniture and equipment	20%

The Company followed the full cost method of accounting for its petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas properties and related reserves were capitalized into a single Canadian cost centre. Such costs included land acquisition costs, geological and geophysical expenses, cost of drilling both productive and non-productive wells, tangible production equipment, and that portion of general and administrative expenses directly attributable to exploration and development activities.

The Company applied a "ceiling test" to capitalized costs to ensure that such costs did not exceed the estimated value of future net revenues from estimated production of proven reserves, using prices and costs in effect at the Company's year-end. Future net revenues were calculated after deducting general and administrative costs, financing costs, income taxes and future site restoration and abandonment costs.

Capitalized costs were depleted using the unit-of-production method based on estimated proven reserves, before royalties, as determined by an independent engineer. For purposes of the depletion calculation, natural gas reserves and production were converted to equivalent volumes of crude petroleum based on the energy equivalent ratio of six thousand cubic feet of natural gas to one barrel of crude petroleum.

(d) Research and deferred software development:

Research costs are expensed as incurred. Costs related to the development of software are expensed as incurred unless such costs meet the criteria for deferral and amortization under generally accepted accounting principles. The criteria are the establishment of technical feasibility, identification of a market for the software, the Company's intent to market the software, and the existence of adequate resources to complete the project. To October 31, 2001, the Company has deferred the purchase cost of acquired software which is being amortized over its expected useful life of five years. No other soft ware development costs have been deferred.

Capitalized software development is evaluated in each reporting period to determine whether it continues to meet the criteria for continued deferral and amortization.

2. Significant accounting policies (continued):

(e) Foreign currency translation:

The Company uses the temporal method of foreign currency translation to translate the accounts of its foreign subsidiary. Monetary items are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in income.

(f) Revenue recognition:

Revenue is recognized in accordance with the terms of the Company's various licensing agreements. Software set-up fees, which require software customization, modification and integration are recognized following the completed contract method. Licensing revenue including revenue related to software maintenance and upgrades, is recognized on an accrual basis as earned over the life of the licensing agreement.

(g) Per share amounts:

Loss per share has been calculated using the weighted average number of common shares outstanding during the year, which were 15,616,063 (2000 - 12,807,211, 1999 - 10,906,801). Diluted per share amounts, which are calculated using the treasury stock method, have not been shown as the results would be anti-dilutive.

(h) Use of estimates:

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(i) Income taxes:

The Company follows the liability method of accounting for income taxes, under which future income tax assets and liabilities are determined based on "temporary differences" and are measured using the current, or substantially enacted, tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

(j) Stock option plan:

The Company has a stock option plan which is described in note 9(c). No compensation expense is recognized under the plan when stock options are issued. The consideration paid on exercise of stock options is credited to share capital.

Years ended October 31, 2001, 2000 and 1999 (stated in Canadian dollars)

3. Acquisition of wholly-owned subsidiary:

On November 1, 1998, the Company acquired all of the issued and outstanding shares of GTI, a Delaware corporation, by issuing 1,000,000 common shares in escrow and 50,000 common shares, at $1.00 per share, to a third party as a finder's fee. Under the terms of the Escrow Agreement, the 1,000,000 shares are held and released on the basis of one share for each $1.00 of cash flow from operations generated by GTI. Shares remaining in Escrow at October 31, 2003 are to be returned to the Company and cancelled. Since the likelihood of positive future cash flows in GTI cannot be determined beyond a reasonable doubt, these shares are contingent consideration and their issue, although recognized in these financial statements have been valued at $nil consideration. As shares are released from escrow, they will be recorded as an additional cost of the acquisition at that time. GTI is a development stage corporation and is a computer hardware and software integrator that specializes in Internet and Intranet based computing. The acquisition has been accounted for as a pur chase and accordingly the results of operations of this business have been consolidated since the date of acquisition. The following is a summary of the purchase consideration and net assets acquired:

Cash	$ 68,285
Software	391,628
Capitalized assets	229,839
Net working capital deficiency	(341,947)
Long-term debt	(297,805)
Net assets acquired	$ 50,000

The Company has determined that $242,512 of liabilities which were recognized upon the acquisition are no longer payable, and therefore these amounts have been recognized as income in the current year.

Years ended October 31, 2001, 2000 and 1999 (stated in Canadian dollars)

4. Discontinued operations:

On February 1, 1999, the Company sold its petroleum and natural gas properties business segment for proceeds of $127,750 cash. The Company recognized a loss of $113,397 on the sale. The operating results of this business segment for all years presented are reflected as "discontinued operations". The statement of net income (loss) for the petroleum and natural gas properties business segment was as follows:

	Period ended February 1, 1999	Year ended October 31, 1998
Revenue	$ 27,911	$ 137,411
Royalties	(8,316)	(32,267)
	19,595	105,144
Expenses:		
Operating	25,898	78,118
Depletion	4,492	130,747
	30,390	208,865
Loss on disposition	(113,397)	-
Net income (loss) from discontinued operations	$ (124,192)	$ (103,721)

Included in depletion expense for the year ended October 31, 1998 is $80,000 related to a write-down of petroleum and natural gas properties.

5. Capital assets:

2001	Cost	Accumulated amortization	Net book value
Capital assets under lease	$ 47,005	$ 24,641	$ 22,364
Computer equipment	476,602	246,778	229,824
Furniture and equipment	78,582	27,378	51,204
	$602,189	$ 298,797	$ 303,392

2000	Cost	Accumulated amortization	Net book value
Capital assets under lease	$ 46,322	$ 20,381	$ 25,941
Computer equipment	375,076	134,334	240,742
Furniture and equipment	80,429	19,367	61,062
	$501,827	$ 174,082	$ 327,745

Years ended October 31, 2001, 2000 and 1999 (stated in Canadian dollars)

6. **Deferred software development costs:**

	2001	2000
Software development costs	$ 549,118	$ 549,118
Less: accumulated amortization	(328,974)	(218,898)
Net book value	$ 220,144	$ 330,220

7. **Capital leases:**

The capital lease obligations were incurred to purchase computer and office equipment, the following is a summary of the capital lease obligations at October 31, 2001:

Capital lease obligation	$ 26,114
Less current portion	(12,668)
	$ 13,446

The following is a schedule by years of future minimum lease payments together with the net present value as at October 31, 2001:

Fiscal year ending:	
2002	$ 13,468
2003	8,796
2004	6,728
2005	3,195
Total minimum lease payments	32,187
Less interest amount	(6,073)
	$ 26,114

Years ended October 31, 2001, 2000 and 1999 (stated in Canadian dollars)

8. Share capital:

(a) Authorized:

100,000,000 common shares without par value

(b) Issued:

	Number of Shares	Amount
Common shares:		
Balance, October 31, 1998 (i)	9,630,501	$ 2,211,001
Issued on acquisition of GTI (note 3)	1,000,000	-
Issued for finder's fee on acquisition of GTI (note 3)	50,000	50,000
Issued for cash on exercise of stock options	125,000	18,750
Issued on conversion of debentures payable	500,000	500,000
Balance, October 31, 1999	11,305,501	2,779,751
Issued for cash on exercise of stock options	45,000	72,500
Issued on conversion of Special Warrants (iii)	550,000	932,800
Issued for cash on exercise of warrants (iii)	550,000	1,375,000
Issued on conversion of Special Warrants (ii)	3,100,000	9,258,584
Balance, October 31, 2000	15,550,501	$ 14,418,635
Issued for cash on exercise of stock options	20,000	20,000
Issued for cash on exercise of warrants	58,000	72,500
Balance, October 31, 2001	15,628,501	$ 14,511,135

(i) 375,000 shares are held in escrow on behalf of the principals of the Company and are subject to the direction and determination of the regulatory authorities in the Province of British Columbia.

955,400 shares are held in escrow on behalf of the principals of the Company and others and subject to the direction and determination of the regulatory authorities in the Province of Alberta.

Pursuant to the Company's acquisition of all of the issued shares of GTI, 1,000,000 shares are held in escrow and are realizable from time to time as to one escrowed share for each $1.00 of cash flow generated by GTI subsequent to its acquisition by the Company. At October 31, 2001 all these shares remain held in escrow.

The Company has agreed to issue an additional 25,000 shares as a finder's fee in connection with the acquisition of GTI. This additional share issue will be subject to regulatory approval and will be subject to escrow as determined by regulatory authorities. As of October 31, 2001, these shares have not been issued.

Years ended October 31, 2001, 2000 and 1999 (stated in Canadian dollars)

8. **Share capital (continued):**

(b) Issued (continued):

(ii) On March 10, 2000, the Company received $10,075,000, less $816,416 of related issue costs, through a private placement of 3,100,000 Special Warrants. These Special Warrants entitle the holder to acquire one common share and one half common share purchase warrant. Each whole pur chase warrant entitles the holder thereof to acquire one common share of the Company at a price of $3.80 and is exercisable for a period of one year from the date of issue. In conjunction with the issue of Special Warrants, the Company issued to its Agent 310,000 broker warrants and 500,000 warrants to a financial consultant as compensation for financial advisory services. Each warrant entitled the holder to acquire an option to purchase one common share at a price of $3.25 per share, exercisable until March 10, 2001. These warrants have expired.

On July 14, 2000 the 3,100,000 Special Warrants were converted to 3,100,000 common shares and 1,550,000 purchase warrants. These warrants expired on March 10, 2001.

(iii) During the year ended, October 31, 1999 the Company received $1,000,000 through a private placement of 500,000 Special Warrants. The Special Warrants originally entitled the holder to acquire one common share and one warrant. Each warrant entitled the holder thereof to acquire one common share of the Company at a price of $2.50 until May 26, 2000. The Company did not complete the prospectus filing to clear the securities by September 24, 1999 and, accordingly, the Special Warrants were convertible or exchangeable for 1.1 common shares and 1.1 warrants each. All of the Special Warrants were converted to common shares, and in addition, 550,000 warrants to pur chase common shares were exercised at $2.50 per common share.

(c) Stock options and warrants:

The Company has a stock option plan for its directors, officers, employees and key consultants where by an amount of options to a maximum of 3,110,100 shares may be granted subject to certain terms and conditions. Stock option vesting privileges are at the discretion of the Board. The exercise price for stock options granted is no less than the quoted market price on grant date.

Changes in the number of options, with these weighted average exercise prices are summarized below:

	October 31, 2001		October 31, 2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	1,777,532	$ 1.02	897,532	$ 1.88
Granted	579,100	1.35	1,025,000	3.16
Exercised	(209,200)	0.67	(45,000)	1.61
Forfeited	(135,866)	1.03	(100,000)	3.00
Outstanding, end of year	2,011,566	$ 1.15	1,777,532	$ 2.77

Years ended October 31, 2001, 2000 and 1999 (stated in Canadian dollars)

8. Share capital (continued):

(c) Stock options and warrants:
The following table summarizes information about the stock options outstanding at October 31, 2001:

		Options Outstanding		Options Exercisable	
Range of Exercise Prices	Number	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$1.00 - $1.25	1,811,066	3.5	$ 1.07	180,533	$1.02
1.26 1.75	50,000	2.1	1.50	50,000	1.50
1.76 2.10	150,500	5.3	2.01	16,666	2.09
$1.00 $2.10	2,011,566	3.6	$ 1.15	247,199	$1.19

In November 2000, 58,000 of the 1998 warrants were converted to common shares and the remaining 192,000 warrants expired.

9. Related party transactions:

For the year ended October 31, 2001, the Company paid legal fees of $60,000 (2000 - $62,000) and consulting fees of $162,000 (2000 - $135,000) to various directors of the Company in the normal course of business. These transactions were measured at the exchange amount and recorded in general and administrative expenses.

Included in accounts receivable is $29,908 (October 31, 2000 - $14,487) due from Company officers, directors and employees.

Effective November 1, 1999, the Company sold its Internet gaming software application, Casino Casino, to its wholly-owned subsidiary, CGC. The sale includes the source code for the Casino Casino software and exclusive rights to all gaming or wagering applications of the Software. The Company and its wholly-owned subsidiary, GTI, have also assigned to CGC all existing licensing agreements relating to the Casino Casino software. Included in the purchase was $192,977 of accounts receivable from sub-licensees. CGC operates independently of the Company. There are no common employees, officers or directors.

Years ended October 31, 2001, 2000 and 1999 (stated in Canadian dollars)

10. Income taxes:

The Company has adopted the liability method of accounting for income taxes effective November 1, 1999. This method was adopted retroactively without restatement of prior periods. Prior to November 1, 1999 income taxes were accounted for using the deferral method.

Income tax recovery differs from the amount that would be computed by applying the basic combined Canadian federal and provincial statutory income tax rate to the net loss for the year. The reasons for the differences are as follows:

	2001	2000	1999
Net loss	$ (835,967)	$ (2,625,306)	$ (1,998,892)
Combined Canadian federal and provincial statutory rate	42.6%	43.6%	44.6%
Computed recovery	(356,121)	(1,144,633)	(891,506)
Non-tax-based amortization	44,605	47,992	31,939
Difference in foreign tax rates	(762,816)	5,338	60,000
Benefit of future tax assets not recognized	1,063,778	802,625	799,567
Non deductible expenses	10,554	288,678	-
Actual recovery	$ -	$ -	$ -

The adjustment in respect of differences in foreign tax notes includes amounts arising from the differences in taxable income in the various jurisdictions in which the Company operates.

The components of the Company's net future income tax asset at October 31, 2001, no portion of which has been recorded in these financial statements, are as follows:

	Canada	United States	Total
Benefit of non-capital/net operating losses	$ 1,491,465	$ 25,235	$ 1,516,700
Capital assets	88,000	-	88,000
Benefit of share issue costs	185,300	-	185,300
Resource deductions	99,100	-	99,100
Deferred development costs	349,900	-	349,900
	$ 2,213,765	$ 25,235	$2,239,000

As at October 31, 2001, the Company has Canadian unrecognized loss carry-forwards for income tax purposes of approximately $4,187,000 (2000 - $1,367,000) available for deduction against future years' taxable income. These losses expire as follows:

2002	$ 123,412
2003	85,773
2004	136,870
2005	140,519
2006	955,395
2007	2,745,188
	$4,187,157

Years ended October 31, 2001, 2000 and 1999 (stated in Canadian dollars)

10. Income taxes (continued):

In addition, for income tax purposes GTI has net operating losses carry-forward of $74,243 (2000 - $301,353) available for deduction against future year's taxable income in the United States. These losses expire between 2018 and 2019.

11. Change in accounting policy:

Effective November 1, 1999 the Company has adopted the treasury stock method to calculate diluted per share amounts. This method has been adopted retroactively, and had no effect on previously recorded diluted per share amounts.

12. Financial instruments:

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities and capital lease obligations. The fair value of these financial instruments approximate their carrying values, unless otherwise noted. It is management's opinion that the Company is not exposed to significant interest and or credit risk. The Company's short term investments consist of investments in low risk, fixed interest, corporate bonds. A substantial portion of the Company's revenue is exposed to currency fluctuations.

13. Commitments:

(a) Royalty:
Pursuant to a software acquisition agreement, the Company is required to pay a royalty of 5% net receipts received in connection with the operation and management of an online or Intranet/Internet entertainment and game playing website by clients of the Company or other licensing of the software by the Company. The Company has granted a first fixed charge on the software to the Royalty holder.

(b) Operating leases:
The Company operates from leased premises. Future minimum annual payments under the leases are as follows:

2002	$ 159,000
2003	159,000
2004	159,000
2005	79,500

14. Segmented information:

The Company has aggregated its Canadian and Belize operating segments into one reporting segment as management has determined that the nature of the operations in each segment meets the aggregation criteria specified by the CICA.

The Company's software set-up and license fees are from domestic and foreign entities and originate from the following countries of operation:

2001	Canada	Belize	Total
Software set-up fees	$ 212,361	$ 1,716,335	$ 1,928,696
Software license fees	$ 67,022	$ 841,854	$ 908,876

Years ended October 31, 2001, 2000 and 1999 (stated in Canadian dollars)

14. Segmented information (continued):

2000	Canada	Belize	Total
Software set-up fees	$ 44,375	$ 865,527	$ 909,902
Software license fees	$ -	$ 172,463	$ 172,463

15. Differences in generally accepted accounting principles between Canada and the United States:

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles "Canadian GAAP". Any differences in United States generally accepted accounting principles ("U.S. GAAP") as they pertain to the Company's financial statements are not material except as follows:

(a) Reconciliation of Canadian GAAP Loss to U.S. GAAP Net Loss:
The effect on the loss for each of the years in the three year period ended October 31, 2000 of the differences between Canadian GAAP and US GAAP is summarized as follows:

	Years ended October 31, 2001	2000	1999
Net loss from continuing operations for the period as reported in accordance with Canadian GAAP	$ (835,967)	$ (2,625,306)	$ (1,998,892)
Beneficial conversion feature interest expense	-	-	(125,000)
Repricing of stock options	(702,660)	-	-
Stock based compensation expense:			
APB 25	(37,580)	(118,785)	30,272
FAS 123	(94,870)	-	(58,000)
Net loss from continuing operations under U.S. GAAP	(1,671,077)	(2,744,091)	(2,151,620)
Income (loss) from discontinued oil and gas operations	-	-	(124,192)
Difference arising from application of US GAAP ceiling test	-	-	96,116
	-	-	(28,076)
Net loss under U.S. GAAP	(1,671,077)	(2,744,091)	(2,179,696)
Deficit, beginning of year, under U.S. GAAP	(6,155,830)	(3,411,739)	(1,232,043)
Deficit, end of year, under U.S. GAAP	$(7,826,907)	$ (6,155,830)	$ (3,411,739)
Net loss per share, basic:			
From continuing operations (after extraordinary items)	$ (0.11)	$ (0.21)	$ (0.23)
Discontinued operations	-	-	(0.00)
Net loss	(0.11)	(0.21)	(0.23)
Weighted average shares for basic EPS	15,616,063	13,126,530	9,430,141

Years ended October 31, 2001, 2000 and 1999 (stated in Canadian dollars)

15. Differences in generally accepted accounting principles between Canada and the United States (continued):

Under U.S. GAAP the gain from extinguishment of debt included within the income statement would be classified as an extraordinary item in accordance with SFAS No. 4, "Reporting Gains and Losses for Extinguishment of Debt". Loss per share before extraordinary items was $0.09.
For U.S. GAAP purposes of the amounts of interest income would not be included in the subtotal of revenue.
The components of comprehensive income are as follows:

	2001	2000	1999
Net loss - US GAAP	$ (1,671,077)	$ -	$ -
Other comprehensive income:			
Change in fair value of available for sale long-term securities	27,625	-	-
Comprehensive income (loss)	$ (1,643,452)	$ -	$ -

Balance sheet items which vary in conformity with US GAAP and SEC requirements:

	2001	2000
Assets:		
Available for sale long-term securities	$ 70,507	$ 42,882
Shareholders' Equity:		
Common Stock	$ -	$ -
Accumulated other comprehensive income	27,625	-
Deficit	(7,826,907)	(6,155,830)
	$ (7,799,282)	$ (6,155,830)

There are no variations between the amounts of assets and liabilities and those amounts measured using U.S. GAAP.

Years ended October 31, 2001, 2000 and 1999 (stated in Canadian dollars)

15. Differences in generally accepted accounting principles between Canada and the United States (continued):

(b) Stock based compensation:

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations, in accounting for its stock options issued to employees, directors and officers of the Company for purposes of reconciliation to U.S. GAAP. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123, "Accounting for Stock-Based Compensation", established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above and has adopted the disclosure requirements of SFAS No. 123. Stock options issued to consultants and other third parties are accounted for at their fair values in accordance with SFAS No. 123. The fair value of the options granted to consultants and other third parties is estimated on the date of grant using the Black Scholes option pricing model with the following weighted average assumptions for grants; expected volatility of 100%, risk free interest rate of 6% and expected option lives of 5 years.

With the exception of 50,000 options granted to a consultant in the year ended October 31, 1999, and 50,000 options granted to a consultant in the year ended October 31, 2001, all options granted to date have been fixed and granted to employees, directors and officers of the Company. $94,870 (1999 - $58,000) has been charged against income for those options in 2001.

The Company has calculated the fair value of stock options granted to employees, directors and officers under the minimum valued method using the Black Scholes option pricing model with the following weighted-average assumptions:

	2001	2000	1999
Risk free interest rate	6%	6%	6%
Volatility	100%	100%	100%
Expected option life (in years)	5	5	5
Dividend yield	0%	0%	0%

Years ended October 31, 2001, 2000 and 1999 (stated in Canadian dollars)

15. Differences in generally accepted accounting principles between Canada and the United States (continued):

(b) Stock based compensation (continued):

Had the Company determined compensation costs based on the fair value at the date of grant for its stock options under SFAS 123, net earnings in accordance with US GAAP would have been as reported in the following table. The Company has not recognized in income any amount under SFAS 123 for stock-based employee compensation expense. These pro forma earnings reflect compensation cost amortized over the options' vesting period.

	Years ended October 31, 2001	2000	1999
Net loss under U.S. GAAP			
As reported	$ (1,671,077)	$ (2,744,091)	$ (2,179,696)
Pro forma	(1,889,073)	(3,656,095)	(3,270,775)
Basic loss per common share:			
As reported	$ (0.11)	$ (0.21)	$ (0.23)
Pro forma	(0.12)	(0.28)	(0.35)

(c) Additional disclosures under U.S. GAAP:

(i) The Company follows SFAS 130 regarding comprehensive income for purposes of reconciliation to U.S. GAAP. Under U.S. GAAP, items defined as other comprehensive income are separately classified in the financial statements and the accumulated balance of other comprehensive income (loss) is reported separately in shareholders' equity on the balance sheet. For the three years ended October 31, 2001 there are no items classified as other comprehensive income, with the exception of a change in the fair value of available for sale securities of $27,625 for the year ended October 31, 2001.

(ii) The 2,330,400 common shares held in escrow for the year ended October 31, 2001 (2000 - 1,627,700 and 1999 - 1,476,660), have not been included in the calculation of basic or diluted earnings per share as doing so would be anti-dilutive.

(iii) Under US GAAP, the carrying value of petroleum and natural gas properties and related facilities, net of future income taxes, is limited to the present value of after tax future net revenue from proven reserves, discounted at 10 percent (based on prices and costs at the balance sheet date) plus the lower of cost and fair value of unproven properties. Under Canadian GAAP, this "ceiling test" is calculated without application of a discount factor. At October 31, 1997 the application of the full cost ceiling test under US GAAP resulted in a write-down of capitalized costs of $98,100. At October 31, 1998 the application of the full cost ceiling test under US GAAP resulted in a write-down of capitalized costs of $95,700.
Where the amount of a ceiling test write-down under Canadian GAAP differs from the amount of write-down under US GAAP, the charge for depletion will differ in subsequent years.
Under Canadian GAAP, all costs in new cost centres, including costs of exploratory dry holes, may be capitalized unless such amounts are not considered recoverable in the future. Under US GAAP such costs, including those in new cost centres, are subject to the full cost ceiling test and write-downs, if any, are included as additional depletion.

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Stock Exchange:

TSX Venture Exchange
Trading Symbol: TSX-VEN: CWH

2001 Share price

Expressed in Canadian Dollars

Common Shares	High	Low
1st Qtr	1.99	0.80
2nd Qtr	1.22	0.75
3rd Qtr	2.28	0.97
4th Qtr	2.60	1.60